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Opinion: The Benefits and Costs of Outsourcing Jobs

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George Coontz

With today's consumer stretching the dollar further and further, tremendous competitive pressure has been put on U.S. companies trying to compete with foreign companies. In this competitive world, companies must reduce costs in order to provide a product or a service. Reduction in labor costs is one way to reduce costs of production. Another way is to improve efficiency.

We have to remember that someone somewhere will always be hurt by some policy; we must remember that we are also creating jobs in other areas of the world. Lots of jobs going overseas are those in call centers. These are places where companies offer technical support. For example, credit card companies and computer tech support have been moving their support operations overseas. As a result of moving these support jobs overseas, a reduction in cost is seen for the company in the form of lower labor costs. This in turn will lower the cost of the goods and services to you, the consumer, and the company will remain competitive. This need for reduction in prices is consumer-driven. With the increased competition involved in a world market, corporations from other areas of the world with lower labor costs are directly competing with corporations from the United States with higher labor costs. Since American consumers demand lower and lower prices for goods every day, if American companies do not make these changes and lower production costs, they will go out of business and all of the company's jobs will be lost. I believe that it is better to lose only a few jobs than to lose the entire company and all of its benefits to American society.

Outsourcing, from a purely at economic perspective, is good for developing economies. Free trade benefits all parties involved because of comparative advantage. Basically, comparative advantage means that if a certain country can produce a good or service more efficiently than another coun-

try, then this country possesses the comparative advantage. This country should elect to produce this good or service, while the other country should produce goods for which they have a comparative advantage. Both countries trade with each other to obtain the goods for which they have the comparative disadvantage. This promotes economic growth and prosperity. You cannot be in favor of both free trade and protectionism at the same time, and outsourcing is an example of free trade.

However, outsourcing does have some costs, namely the elimination of jobs here in the United States. For the displaced workers, the cost of relocation and retraining is born by the economy. It depends on each person's view of things to determine if these are major costs to the economy. If you are displaced, this is a huge loss, but if you just reap the benefits of the lower cost of production by outsourcing with lower prices, you will only see the positives externalities of the job relocation. I personally have not been the victim of an outsourcing incident, so I can only offer the economic reasoning behind why companies choose to outsource. Efficiency gains and comparative advantage impact the economy positively, resulting in gains for every member of society.

Outsourcing is an example of a real life application of comparative advantage. Many developing countries have a surplus of labor, and therefore, the cost of this labor is low. Consequently, companies elect to utilize this low cost labor by outsourcing labor-intensive jobs, such as call centers, to these countries. The main benefit to the U.S. involves lower prices of goods and services. Other areas of the world benefit, because outsourcing provides them with employment. Unfortunately, outsourcing does result in the elimination of some jobs in the U.S. And to those people who are laid off due to outsourcing and cannot easily find new employment, the benefit of outsourcing – lower prices – may not serve as much

of a consolation.

Unfortunately, people will continue to lose their jobs due to outsourcing. They may not be able to find work for a while as there could be a time lag before they find a new source of employment. This is a cost to society because unemployment benefits will be paid by the government and taxpayers.

It is possible that this loss just could be temporary. In the future, the United States might develop a comparative advantage in some new good or service thus creating jobs in the United States and removing them from a place with a comparative disadvantage in those services. My suggestion is that we should all strive to gain as much education as possible in order to learn how to conduct business more efficiently and gain the comparative advantage for America. Always strive to be the best at what you do and be proud of it.